MTC Sales Tax Simplification Committee Meeting
Wednesday, May 19, 1999
11:00am to 4:00pm (Eastern)

Minutes

I.   Welcome and Introductions

Wayne Eggert, Planning Committee Chair, called the meeting to order. The following individuals were present at the meeting:

Name	State/Organization
Wayne Eggert, Committee Chair	National Tax Association
Frank Davis	Tax Executives Institute
Harley Duncan	Federation of Tax Administrators
Bruce Johnson	Utah Tax Commission
Doug Joseph	American Institute of Certified Public Accountants
Fred Kiga	Washington Department of Revenue
Norman Lobins	American Institute of Certified Public Accountants
Wilma Murphree	Institute for Professionals in Taxation
Jerry Orr	Committee on State Taxation
Mona Shoemate	Texas Comptroller's Office
Mike Southcombe	Idaho State Tax Commission
Quentin Wilson	Missouri Department of Revenue
René Blocker	Multistate Tax Commission
Dan Bucks	Multistate Tax Commission
Jason Lumia	Multistate Tax Commission
Elliott Dubin	Multistate Tax Commission

II.   Public Comment Period

There was no public comment.

III.   Reports on Progress of State-Specific Simplification Subcommittees and Development of Reporting Plan for Subcommittees

There were no reports at this time.

IV.   Commencement of Work of Sales Tax Simplification Committee

Review of Sales Tax Simplification Ideas

Four questions were posed to the participants in a brainstorming session.

Why simplification?

The need for simplification was attributed to the following factors:

- Simplification is the place of intersection between the taxpayer and government (more can be accomplished if both entities work together as opposed to each working separately);
- Enhanced voluntary compliance (more fairness = more revenue);
- Reduced compliance costs for both government and the taxpayer;
- It is being forced due to the advent of electronic commerce, technology, and other external factors;
- Preservation of state autonomy (prevent the need for federal pre-emption);
- Decrease the number of un-funded government mandates on businesses;
- Existing perception that the public has grown increasingly dissatisfied with the status quo; and
- As we become increasingly reliant on a multistate world, the need for a general easing of doing business across state lines augments.

What would a simplified world look like?

- Increased uniformity — fewer tax rates, diminished complexity, increased tax base uniformity; and
- A partnership relationship between the user/vendor, the government agency, and the tax collector would evolve.

Jerry Orr mentioned that a "tax goal" should be to remove social goals or initiatives (and the associated politics) from the tax system to achieve administrative ease. In general, Steering Committee members as a whole emphatically stated that above all else, members of the tax world should not "add" to the current complexity of the sales tax system.

Who can make simplification happen?

- States, either administratively or via the legislative process, and taxpayers.

Several notions were introduced such as the impending need for businesses to be an advocate of simplification and the inherent battle of the general public versus special-interest groups that seek legislation suiting their own cause.

How can simplification happen?

- Public Relations! Quintessential need at a national level of attention for press detailing the pros of simplification in addition to chronicling any simplification "success stories";
- Commence and continue various demonstration projects such as the Northwest Regional Sales Tax Pilot Project;
- Formulate state-specific committees;
- Realization that the tax world should not shy away from "small fixes." For simplification to succeed, advocates need to continually chip away at the complexity of the current system one step at a time; and
- Partnership, partnership, partnership!

Organization of Committee/Process of Chartering Groups to Work on Implementing Simplification Ideas

As the project evolves and shifts out of the planning phase, so do the objectives of the Committee. As such, the *Sales Tax Simplification Committee* was renamed as the *Sales Tax Implementation Committee* to reflect the stated objective of **implementing and fostering sales tax simplification and preventing further sales tax complexity**.

With respect to uniformity issues, it was unanimously decided that the Implementation Committee members would comprise what will be referred to as the *Steering Committee*. Also unanimously decided was the appointment of Wayne Eggert as Chairperson of the Steering Committee. (It was contemplated that there would be a rotation of the position of Chair among the Committee members.) The Steering Committee will ensure that the objective is being addressed and that a continuous momentum exists. The Steering Committee selected three uniformity ideas from the list developed by the Planning Committee. (See Attachment.) A uniformity issue from each of three broad categories, *i.e.*, compliance simplification, policy simplification, and audit and appeals, was selected that will be addressed and pursued during the implementation phase. The three uniformity ideas selected are:

1. Exemption processing, which includes:

- Each state constructing a website that contains a list of all exempt customers and their respective registration numbers;
- Acceptance by all states of uniform multijurisdictional exemption certificates; and
- A uniform date of expiration of exemption from the time of issuance.

2. Uniform sales tax situs for taxable tangible personal property and services; and

3. Uniform refund claim process.

The Steering Committee resolved that the optimal way to address these issues was to devise three separate task forces, which will research and develop a feasible method for the implementation of the uniformity ideas. Each task force will be comprised of between four and six members (to be divided between government and the business community), in addition to the inclusion of a task force chairperson(s). Jerry Orr and Mona Shoemate will co-chair the *Exemption Processing Task Force*; Wilma Murphree will chair the *Situs Task Force*; and Norman Lobins will chair the *Refund Claim Process Task Force*. These task forces are authorized to utilize the staff of the Multistate Tax Commission and the Federation of Tax Administrators and will include the participation of the MTC Uniformity Committee. When each task force has resolved that a "best practice" has been conceived, the task force may then submit the proposal to the Steering Committee for endorsement.

It is the intention to incorporate all forty-six states (including the District of Columbia) that levy a sales tax into this Project. As such, states have been asked to develop their own state-specific subcommittees. Each state subcommittee, which will be comprised of representatives from both government and business alike, is charged with identifying state and local sales tax problems that currently exist or that may arise in the future and with moving towards implementing solutions to simplifying the sales tax in their specific state. To date, twenty-three states have established subcommittees. Members of the Steering Committee will regularly reach out to each of the states to monitor their progress and to assist states where progress may be lagging. Each state subcommittee will generate reports on a regular basis, the overall tone of which should enunciate the positive and focus on the progress that is being made. Positive reinforcement of the benefits of simplification and a continuous forward momentum are critical to this process and to the success of the project in its entirety. Generally, states were assigned to Steering Committee members roughly by region. The Steering Committee members and the states they will monitor are:

Name	State
Frank Davis	DC, MD, NC, SC, VA
Wayne Eggert	AL, MA, NJ, PA, RI
Bruce Johnson	AZ, CO, NM, UT, WY
Fred Kiga	CT, ID, ME, VT, WA, WI
Norman Lobins	IN, KY, MI, MN, OH, WV
Wilma Murphree	HI, LA, NV, OK
Jerry Orr	AR, CA, FL, GA, MS
Mona Shoemate	ND, NY, SD, TN, TX
Quentin Wilson	IA, IL, KS, MO, NE

The Steering Committee is tentatively scheduled to conduct a teleconference the third week of every other month, at which time the progress of the task forces and the state-specific subcommittees will be discussed.

V.   Update on Work of Related Projects of Other Organizations

Northwest Regional Sales Tax Pilot Project

The Northwest Project is somewhat of a unique undertaking. The States of Idaho, Utah, and Washington gathered in a cooperative effort to develop a sales tax system that effectively harmonizes and simplifies sales taxes within the three States. This will enable businesses to comply more efficiently with the sales tax requirements of the three States. The scope of the Project is to develop a fair, simplified sales tax system that will work well in all major marketplace circumstances for sales and use taxpayers operating in this tri-state region. Each state has assembled government representatives as well as members from businesses that are headquartered in those States to participate in the Project.

To accomplish this groundbreaking goal, four task forces have been created to analyze the various components critical to achieving uniformity. The *Information Technology (IT) Task Force* is exploring and evaluating the different types of technology — software and hardware solutions — exist or could be created that would enhance uniformity. A second group, the *Tax Filing Task Force*, envisions a uniform and simplified sales tax return. The Task Force is examining ways of providing greater consistency across the States in the filing of tax returns. Filing dates, the reporting of deductions and exemptions, etc., have been considered. Currently, the Tax Filing Task Force envisions utilizing a voucher system that would be filed annually, quarterly, etc., with interest payments to be made on any shortfalls in liability that could possibly be tested among a select group of businesses in the fall. The *Tax Rate Task Force* is investigating methods of reducing costs and audit risks associated with variable sales tax rates and developing strategies for reducing the number of differing rates in the region, one of the more difficult barriers to overcome. The group has evaluated instituting a one rate per state policy; one rate for remote commerce vendors only; fewer rates [than the current system] per state; and preserving the status quo with the addition of technology to aid in determining the tax rates in each individual taxing jurisdiction. Lastly, the *Tax Base Task Force* is identifying ways to simplify the exemption procedures and undertaking the task of providing uniform definitions for use in the tax base. In addition, the Tax Base group is analyzing the *United Nations Central Product Classification Version 1.0*, and its system of statistically classified products and services.

The Northwest Project appears to be headed in the right direction and possesses the attributes affiliated with success: enthusiasm, commitment, and participants with a common vested interest in simplification.

National Tax Association Communications and Electronic Commerce Tax Project

The Communications and Electronic Commerce Tax Project is the industry-state tax initiative formed under the auspices of the NTA. The Tax Project's goal is for industry and the states to develop a broadly available public report that identifies and explores the issues involved in applying state and local taxes and fees to electronic commerce, and that includes recommendations to state and local officials regarding the application of such taxes. Organizers

expect that the report also will include model legislation designed to implement the recommendations of the project.

Of primary concern are issues concerning state and local sales and use taxation of communications and electronic commerce, including gross receipts taxes that are functionally equivalent to sales and use taxes. The Tax Project has also examined concepts such as one rate per state, an expanded duty for vendors to collect, uniform tax base definitions, and administrative simplification. However, these have only been examined as broad initiatives, not specific recommendations. Other ideas that have been analyzed include limiting rate changes to a minimum number of times per year; a uniform provision for bad debts and checks; a uniform direct pay provision; a uniform resale certificate, made available electronically; a good faith requirement; streamlined audit procedures; and a dispute resolution process.

Unfortunately, the Tax Project has not lived up to its potential and has been disappointing at best to date. The ability to reach a consensus on most issues had been virtually nonexistent, and currently the main thrust behind the Tax Project lies with coordinated filing procedures.

Multistate Tax Commission Sales and Use Tax Subcommittee

The MTC Sales and Use Tax Subcommittee of the Uniformity Committee currently is focusing its efforts on two sales tax projects. Working jointly with the Association of Fundraisers and Direct Sellers (AFRDS), the Subcommittee recently completed a proposed model statute that would essentially shift the burden of collecting sales tax from fundraising organizations (e.g. the Girl Scouts and PTAs) to wholesalers and distributors. There is also some momentum behind addressing differences in how various fundraising products and groups are taxed by providing an informational clearinghouse on the Internet. The Subcommittee is also, under its Sales and Use Tax Priority Project, analyzing issues of potential duplicative taxation that arise in the world of multistate transactions, i.e. first use, which state's tax takes priority, etc.

Projects of the Federation of Tax Administrators

One project being undertaken by the FTA commenced with researching electronic data interchange (EDI) and paperless transactions but has since expanded to include direct pay permits, procurement card purchases, and evaluated receipts settlements. The MTC together with the FTA will conduct a public hearing in the near future on a draft direct pay provision. In addition, the FTA is in the process of producing a white paper on sales and use tax compliance agreements, addressing current issues and practices. Also, the working group is examining the use of sampling techniques (including statistical sampling) in audits.

VI.   Additional Steps and Topics to Accomplish Committee's Purpose

There was a consensus that states, businesses, and other organizations should promote the virtues and benefits of sales tax simplification at various conferences, committee meetings, etc., when feasible.

VII. Future Meeting Plans

As previously mentioned, the Steering Committee is tentatively scheduled to conduct a teleconference the third week of every other month, at which time the progress of the task forces and the state-specific subcommittees will be discussed.

The next teleconference of the Implementation Committee is scheduled for Wednesday, July 21, 1999, at 3:00pm Eastern Daylight Time.

Additionally, the Committee tentatively scheduled to convene the state-specific subcommittees during the MTC's Business-Government Dialogue day on November 3, 1999.

VIII. Adjournment